KEYSPAN ENERGY DELIVERY NEW ENGLAND

Direct Testimony of Joseph F. Bodanza

Exhibit KED-1

Bay State Gas Company, D.T.E. 05-27

I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Joseph F. Bodanza. My business address is One MetroTech Center, Brooklyn, New York 11201-3851.

Q. By whom are you employed and in what capacity?

A. I am the Senior Vice President of Regulatory Affairs and Asset Optimization for KeySpan Corporation. In my position, I have responsibility for regulatory and ratemaking affairs for KeySpan Energy Delivery New England ("KeySpan"), which is composed of the New England gas distribution companies operated by KeySpan Corporation, including Boston Gas Company d/b/a KeySpan Energy Delivery New England ("Boston Gas" or the "Company").

Q. Please briefly describe your educational background and your business experience.

A. I graduated from Nichols College in 1969. In 1975, I received a Master of Business Administration from Suffolk University, and in 1981, I received a Master of Finance from Bentley College. I joined Boston Gas in 1972 and held various positions in the financial and regulatory area before becoming Treasurer in 1984. In 1988, I also became Vice President Finance, and a director of the Company. In 1993, I was named Senior Vice President Finance, MIS and Treasurer. In 2000, I became Senior Vice President Financial Operations and Regulatory Affairs for KeySpan and, in 2001, I became Chief Accounting Officer and Senior Vice President Regulatory Affairs for KeySpan. I assumed my current position as Senior Vice President Regulatory Affairs and Asset Optimization for KeySpan Corporation in March 2005.

Q. Are you a member of any professional organizations?

A. Yes. I am a member of the American Gas Association, the Northeast Gas Association, the Financial Executives Institute and the Treasurer's Club.

Q. Have you previously testified before the Department of Telecommunications and Energy or any other regulatory agency?

A. Yes. I have testified in several cases before the Department of Telecommunications and Energy (the "Department"), including prior base-rate cases such as Boston Gas Company, D.P.U. 93-60 (1993), Boston Gas Company, D.P.U. 96-50 (Phase I) (1996) ("D.P.U. 96-50") and Boston Gas Company, D.T.E. 03-40 (2003) ("D.T.E. 03-40"). I also testified before the Department in the merger proceedings involving Eastern Enterprises, Colonial Gas Company and Essex Gas Company.

Q. What is the purpose of your testimony?

A. In D.T.E. 96-50, the Department ordered the Company to "reconcile on a semiannual basis the level of bad debt expense collected in the CGAC based on the actual uncollectible expense attributable to gas costs." D.T.E. 96-50, at 73. In D.T.E. 03-40, the Department reversed this policy and, rather than reconciling gas-cost related bad debts based on actual experience, limited recovery of gas-cost related bad debts to an amount determined by the Department to be "representative" based on the Company's bad-debt experience during the two years immediately preceding the test year. The ramifications of this change have been considerable for the Company (and will be for other companies) as a result of the substantial increase in gas costs that has occurred subsequent to the issuance of the Department's order in D.T.E. 03-40 (November 2003).

Therefore, the purpose of my testimony in this proceeding is to discuss: (1) the differences between Bay State's proposed mechanism and the mechanism applied by the Department to Boston Gas in D.T.E. 03-40; (2) the difficulties being experienced under the bad-debt recovery mechanism applied by the Department in D.T.E. 03-40; (3) the reasons that the proposed Bay State recovery mechanism is the appropriate vehicle for achieving the Department's stated policy goals relating to the recovery of gas costs and gas-cost related bad debt expense; and (4) to request that the Company be allowed to adopt the Bay State proposal, if approved by the Department in this proceeding.

II. DESCRIPTION OF BAD-DEBT RECOVERY MECHANISMS

Q. Are you familiar with Bay State's proposal for the recovery of gas cost-related bad debt expense in this proceeding?

A. Yes. As I understand it, Bay State is proposing to continue to recover its gas-cost related bad debts through the Cost of Gas Adjustment ("CGA") factor. The methodology Bay State has been using, and proposes to continue to use, is as follows: First, consistent with Department precedent, Bay State proposes to establish a test-year bad-debt ratio for use in projecting gas-cost related bad-debt expense in their seasonal CGA filings. To do this, Bay State totaled net writeoffs (gross bad-debt writeoffs less amounts collected that were previously written off) and firm billed revenues for each year of the most recent three years of operation (in this case, 2002, 2003 and 2004). Exh. BSG/JES-1, at 26. Bay State then computed the bad-debt ratio by dividing total net writeoffs by total firm revenues for the three-year time period. Id. Based on the historical data for 2002, 2003 and 2004, the resulting ratio of bad debts to total firm revenues is 2.17 percent. Id. at Schedule JES-6, at 9.

As stated in Bay State's proposed CGA tariff, Bay State includes in its seasonal CGA filing a factor to recover gas-cost related bad-debt expense. Schedule JLH-1-7, § 15.00 et seq. The seasonal CGA filings are based on forecasted amounts, with the forecast of bad-debt expense calculated by multiplying the bad-debt ratio of 2.17 percent (established in this rate case) by the total projected gas costs for the upcoming season. See Schedule JLH-1-7, § 15.02.

On an annual basis, Bay State reconciles the gas-cost related bad-debt amounts collected through the CGA during the previous 12-month period (on a forecasted basis) to its actual bad-debt expense. For reconciliation purposes, Bay State derives the gas-related bad-debt revenues collected through the CGA by multiplying the actual monthly sales by the bad-debt component approved in the initial CGA filing. Id. at § 15.03. Actual bad-debt expense is derived by "tracking" the actual net writeoffs associated with gas-cost collections in each month. Id. The difference between (a) the product of actual monthly sales times the approved bad-debt component, and (b) the actual monthly net writeoffs associated with gas-cost collections, represents the over- or under-collection owed to/from customers for gas-cost related bad-debt expense. Id. Bay State determines the amount of actual net writeoffs associated with gas-cost collections by applying the current ratio of annual firm gas-cost revenues to total firm revenues, to the monthly actual net writeoffs.

Q. Is this approach similar to the mechanism in place for Boston Gas prior to the policy change ordered by the Department in the D.T.E. 03-40 proceeding?

A. Yes, the Bay State approach is virtually identical in concept to the mechanism that was in place for Boston Gas prior to the D.T.E. 03-40 proceeding. Specifically, in its seasonal CGA filings, Boston Gas would project gas-cost related bad-debt expense by first calculating a bad-debt ratio, which was derived by dividing total net writeoffs for the current year by total firm revenues. The Company then multiplied projected firm revenues by the bad-debt ratio to derive its projected bad-debt expense to be collected during the upcoming CGA period. In D.P.U. 96-50, the Department found that 62 percent of the test-year bad-debt expense was attributable to gas costs. D.P.U. 96-50, at 72. Therefore, in its seasonal CGA filings, the Company designed the CGA rate to recover 62 percent of its projected bad-debt expense through the CGA.

On an annual basis, Boston Gas would reconcile the gas-cost related bad-debt amounts recovered through the CGA (based on projections) to its actual gas-cost related bad-debt expense experienced in the prior twelve months. For reconciliation purposes, the Company derived the gas-cost related bad-debt amounts collected through the CGA by multiplying the actual monthly sales by the bad-debt component approved in the initial CGA filing. Actual gas-related bad-debt expense was derived by multiplying the Company's actual monthly net writeoffs by 62 percent. The difference between (a) the product of actual monthly sales times the approved bad-debt component, and (b) the product of actual monthly net writeoffs times 62 percent, represented the over- or under-recovery from customers for gas-cost related bad-debt expense.

Q. What are the key elements underlying the bad-debt expense computation?

A. There are three key elements underlying the bad-debt expense computation. First, both the Bay State and former Boston Gas methodologies identify a *bad-debt ratio*, which is the ratio of net writeoffs to firm revenues. In my experience, it is the Department's practice to establish a bad-debt ratio in a base-rate proceeding by using the three most recent years of data for total net writeoffs (gross writeoffs less amounts collected that were previously written off) and total firm revenues. <u>See</u>, <u>e.g.</u>, D.T.E. 03-40, at 265. This bad-debt ratio is used in a base-rate proceeding to establish the allowed bad-debt expense associated with distribution revenues to be recovered through base rates (this amount is therefore fixed until base rates are reset). Generally, the gas-cost related amount of bad debts targeted for recovery through the CGA is established by a bad-debt ratio that changes annually based on a company's most recent experience during the previous year.

Second, both methodologies account for the *allocation of total bad-debt expense* between gas supply (CGA) and distribution revenues (base rates). Because the total level of revenues associated with the gas-cost and distribution-rate portions of a customer's bill will vary based on consumption patterns, consumption levels and fluctuating gas costs, the allocation of total bad-debt expense between gas and distribution revenues is constantly changing. Under Department precedent, the portion of bad-debt expenses associated with distribution revenues is included in base rates set in a base-rate proceeding and is generally not modified unless a subsequent base-rate proceeding is conducted. See, e.g., D.T.E. 03-40, at 264-265.

Under the Bay State method, the gas-cost portion of total bad-debt expense is derived by applying the current ratio of annual firm gas-cost revenues to total firm revenues, to the monthly actual net writeoffs. For Boston Gas, the Department determined in D.P.U. 96-50 that 62 percent of bad-debt expense in the test year was attributable to gas revenues. Thus, until the Department modified its approach in D.T.E. 03-40, the Company recovered 62 percent of its actual total bad-debt expense through the CGA and 38 percent of bad-debt expense through base rates. Since D.T.E. 03-40, the Company has the capability to track the ratio of gas-cost bad-debt writeoffs to total net writeoffs using its Customer Related

Information System ("CRIS"), rather than using the ratio of gas-cost revenues to base revenues or relying on an allocation established by the Department. See D.T.E. 03-40 (DTE-RR-94; Tr. 24, at 3299).

The third key element of the bad-debt expense computation is the *total revenue amount upon which the computation is based*. The Company's total revenues are composed of revenue obtained through both distribution rates and revenue obtained through the CGA. Since the 2000/01 heating season, the Company and its customers have experienced a high degree of volatility in gas commodity prices, as well as an overall increasing trend in prices. As a result, the Company's total revenues and gas-cost revenues fluctuate from year-to-year so that the percentage of gas revenues to distribution revenues is constantly changing.

Q. How did the policy adopted by the Department in D.T.E. 03-40 modify these components?

A. In D.T.E. 03-40, the Department made fundamental changes relating to the bad-debt expense calculation for Boston Gas. First, the Department established a bad-debt ratio of 1.52 percent (calculated on the basis of two years of historical net writeoffs to total firm revenues) and applied this ratio to test-year revenues to fix the *total* amount of "allowed bad-debt expense" to be recovered annually until the next base-rate proceeding. D.T.E. 03-40, at 265-267. Previously, the bad-debt ratio established in the rate case was applied only to identify the test-year level of bad-debt expense for purposes of setting the amount of bad-debt expense to be recovered through distribution rates. Following the rate case, the bad-debt ratio used in computing the gas-cost related bad-debt expense for the seasonal CGA filings would be updated so that the most recent data regarding the ratio of bad-debt writeoffs to total revenues would be incorporated in the calculation.

Second, the Department established a new approach to the allocation of bad-debt expense between the CGA and base rates. Unlike D.T.E. 96-50, where the Department fixed the allocation of bad-debt expense between base rates and the CGA on a going-forward basis at the test-year percentage for gas costs (i.e., 62%), the Department directed the Company to develop a program for CRIS to track the ratio of actual net writeoffs relating to gas costs in each period. Id. at 266-67 (see DTE-RR-94; Tr. 24, at 3298-99). Thus, in each seasonal CGA filing, gas-cost related bad-debt expense will be projected based on the ratio of actual gas-cost related writeoffs to total net writeoffs in the prior 12 months.

Third, and most significantly, the Department directed the Company to allocate total bad-debt expense to the CGA by applying the updated gas-cost related bad-debt writeoff ratio *to the total bad-debt expense approved in the rate case.* Id. at 267. The "allowed bad-debt expense" calculated in D.T.E. 03-40 was derived by applying the bad-debt ratio of 1.52% to test-year normalized firm sales revenues of $616,071,559, resulting in a total "allowed" bad-debt expense of $9,326,004. Id. at 267 (Compliance Filing Exhibit KEDNE-1, at page 22 of 41). Based on the gas-to-base revenue allocation percentage of 55.3 percent determined in D.T.E. 03-40, the Department calculated gas-cost related bad-debt expense for the test year to be $5,157,280 (or 55.3 percent of $9,326,004). Id. at 267. Therefore, under the terms of the Department's order in D.T.E. 03-40, the recovery of gas-cost related bad-debt expense through the CGA is allowed to vary from the test-year level of $5,157,280 *only* to the extent that an updated ratio of actual gas-related bad-debt writeoffs to total bad-debt writeoffs will be multiplied by the "allowed bad-debt expense" of $9,384,000. Thus, if the ratio of gas-related bad-debt writeoffs to total bad-debt writeoffs in a future year changes from the 55.3 percent to 60.3 percent (for example), the amount allowed for recovery through the CGA will be $5,658,552 (rather than the test-year amount of $5,157,280), or 60.3 percent times $9,384,000.

Q. From an overall perspective, what are the consequences of the Department's reversal of its bad-debt recovery policy?

A. Although not apparent at the time of the Department's order, these changes have had significant financial ramifications because, in effect, the Department established the total level of bad-debt expense at approximately $9.3 million based on the *test-year level of revenues* (calculated in D.T.E. 03-40 based on two years of historical net writeoffs to total revenues), with approximately $5.1 million allocated to gas-cost related bad-debt expense and recoverable through the CGA. However, because of the extreme level of volatility in gas prices, the $5.1 million in bad-debt expense is not representative of the actual gas-related bad-debt expense being incurred by the Company since the test year.

For example, in the test year (FY2002) for D.T.E. 03-40, Boston Gas had total firm revenues of approximately $639.1 million with gas costs totaling approximately $345.8 million or roughly 54.1 percent. In FY 2005, the Company projects that total firm revenues will be approximately $1.05 billion with gas costs projected to total $690.6 million, or about 65.8 percent. As these amounts indicate, the Company’s gas costs have doubled (increasing by $344.8 million) in just three years. Although gas-cost related bad debt expense is growing in parallel, with gas-cost related bad-debt expense projected to be approximately $15 million in 2005, the Company’s recovery of bad-debt expense is locked in at approximately $5 million in D.T.E. 03-40, based on test-year revenues for 2002.

Accordingly, the Department’s decision to eliminate the reconciliation of gas-cost related bad-debt expense and to limit recovery through the CGA based on (1) a fixed bad-debt ratio of 1.52 percent; and (2) a total bad-debt expense of $9,384,000 based on test-year firm revenues, is unworkable in light of the extreme volatility in gas costs and overall pricing trends experienced in the past five years. Moreover, as discussed below, the decision to eliminate the reconciliation runs directly contrary to the Department’s findings in D.P.U. 96-50 that gas-related bad-debt expense <u>should</u> be reconciled when there is an expectation that variation in actual gas-related bad-debt costs will occur, therefore making it difficult to set a “reasonable” or representative amount in rates. D.P.U.

96-50, at 72; discussed in Fitchburg Gas and Electric Light Company, D.T.E. 02-24/25, at 171.

Q. Prior to D.T.E. 03-40, had the Department adopted this new approach for any other Massachusetts natural gas local distribution companies?

A. Yes. According to the Department in D.T.E. 03-40, it developed and applied this new approach in Fitchburg Gas and Electric Light Company, D.T.E. 02-24/25, at 171-172 (2002). D.T.E. 03-40, at 266.

III. RAMIFICATIONS OF THE DEPARTMENT'S CHANGE IN GAS COST-RELATED BAD-DEBT RECOVERIES

Q. What is the fundamental difficulty with the Department's policy reversal relating to the recovery of gas cost-related bad debts?

A. The fundamental difficulty with the approach established by the Department in D.T.E. 03-40 is that it fixes the total bad-debt expense level at the test-year level, despite the fact that total revenues may vary greatly from year to year (and may increase substantially over time) because of the volatility in gas prices. Bad-debt levels are largely a function of revenue levels. As the experience of Boston Gas in recent years has shown, bad-debt writeoffs will increase as gas costs rise and the Company's total billings to customers increase. Thus, a policy that essentially "caps" the bad-debt expense level associated with gas costs in the face of severe gas-cost volatility is unreasonable and unworkable, especially where the Department has established a *ten year* performance-based ratemaking ("PBR") plan.

Q. Has the Department indicated what its policy objective is in establishing this new non-reconciling approach to the recovery of gas cost-related bad debts?

A. Yes. In D.T.E. 02-24/25 (the Fitchburg rate case), the Department outlined two policy objectives underlying its decision to change the methodology for gas-cost related bad-debt expense. First, the Department noted that its original decision to allocate a portion of bad-debt to gas costs was made in D.P.U. 96-50 "because customers migrating to transportation service would likely cause gas revenues, and thus bad debt expense, to decrease." D.T.E. 02-24/25, at 171; D.P.U. 96-50, at 72-73. The Department explained that it anticipated that bad-debt would decrease subsequent to the rate case because competitive suppliers would become responsible for the customer's gas-supply related bad debt. Id. The Department explicitly noted that, in moving a portion of the utility's bad-debt recovery to the CGA in D.P.U. 96-50, its "intent was not to allow recovery of bad debt expense *greater than the level determined to be reasonable* in a rate case," i.e., its intent was to avoid locking in an amount in base rates that would be collectible by the utility even as actual bad-debt expense decreased. Id. (emphasis added).

Second, the Department stated that "dollar-for-dollar" recovery of gas-cost related bad debt expenses "removes the incentive for the [c]ompany to reduce its bad debt expense." D.T.E. 02-24/25, at 172. Thus, instead of allowing Fitchburg to re-calculate the portion of bad debt to be recovered through the CGA based on the prior year's actual gas-cost related bad-debt expense and bad-debt ratio and later reconcile those recoveries to the Company's actual bad-debt experience, the

Department directed Fitchburg to calculate the gas-cost related portion of bad debt expense by applying the ratio of gas-related net writeoffs to total net writeoffs to the ”allowed” bad-debt expense amount set in the rate case. Id.

Q. Does the Company have a concern regarding these two policy objectives in light of the increase in gas-cost revenues experienced in the past two years?

A. Yes, the Company has several concerns. First, as I mentioned above, the Department recognized in D.P.U. 96-50 that, going forward, there was the potential for fluctuations to occur in the level of bad-debt expense incurred by gas companies, specifically citing to the changes that could result from customer migration to competitive supply following the base-rate case. D.P.U. 96-50, at 72. Therefore, rather than locking in an amount in base rates to recover total bad-debt expense, the Department moved the portion of bad-debt expense relating to gas costs into the CGA, which is the mechanism designed to recover gas-related costs on a “dollar-for-dollar,” reconciling basis. In D.T.E. 02-24/25, the Department explicitly stated that, in moving gas-related bad-debt expense to the CGA, it anticipated that bad debt expense would *decrease* and its “intent” was to avoid the “recovery of bad debt expense greater than the level determined to be reasonable in a rate case.” D.T.E. 02-24/25, at 171.

Regardless of the specific reasons cited in D.T.E. 96-50 for anticipated (post-rate case) changes in actual gas-cost related bad-debt expense, the Department’s decision to reconcile those costs fundamentally recognized that there were factors (outside the control of the Company) that would cause volatility in the actual level of gas-related costs that the Company would incur and that, without reconciliation, there was a chance that the Company would recover bad-debt expense in an amount greater than the "reasonable" or representative level set in the rate case. The Department's decision to reconcile gas-cost related bad debt in order to address the anticipated volatility in actual costs and avoid an over-collection situation is a sound and established ratemaking strategy. However, sound ratemaking policy requires that the mechanism be applied regardless of whether circumstances cause gas-cost related bad debts to increase or decrease.

In fact, since D.P.U. 96-50, gas-related bad-debt expense has fluctuated (and increased) significantly for factors other than the customer-migration issue identified by the Department in D.P.U. 96-50. As the Department is acutely aware, gas prices have experienced more volatility, and have risen more dramatically, in the past five years than they had in the 15 years preceding the winters of 1998-99 and 1999-2000. Request for Increase in the Cost of Gas Adjustment Factors, D.T.E. 01-09, at 1 (2001). However, in the face of this unprecedented volatility and upward price trends, the Department has reverted to its policy of locking in both the bad-debt ratio and the amount of bad-debt expense based on test-year revenues, thereby decoupling the bad-debt expense from the gas-cost revenues that drive the expense level. In light of the extreme volatility existing in gas markets, there is no basis for the Department to reverse its original ratemaking decision and to implementer-establish an approach that relies on the establishment of a "representative" level of expense.

The financial impact of this policy change on the Company (and on Bay State if its proposal is not approved by the Department) is substantial and, if gas prices continue to rise, this policy will force base-rate proceedings, even for companies operating under PBR. Conversely, bad-debt expense amounts set in a test year where gas costs may be substantially higher than will be experienced in the future, will produce the precise result the Department intended to avoid when it initially adopted the policy of reconciling gas-cost related bad debts through the CGA in that it will potentially lock in an amount that is substantially greater than may be "reasonable" or representative in the future.

Another concern of the Company in relation to this policy change is one of fundamental fairness. When the Department expected gas-related bad-debt expense to decrease as a result of customer migration following the rate case, the Department changed its policy to avoid the recovery of bad-debt expense greater than the representative level that would be set in the rate case. Now, when bad-debt costs are increasing substantially, the Department has reverted to its policy of setting a "representative" level of expense in rates, which it knows may not be representative of what the Company is likely to experience in the future because of unprecedented gas-cost volatility. In fact, the Department created the CGAC specifically because of the difficulty of establishing a representative amount of fuel costs in base rates. See Worcester Gas Light Company, 9 P.U.R. 3d 152, 155-56 (1955). In establishing the CGA, the Department explicitly recognized that a ratemaking approach that results in the periodic resetting of non-reconciling base rates simply does not work effectively or adequately for expense categories characterized by an abnormal level of volatility. Because the level of gas-cost related bad-debt expense is a direct function of gas costs, it may be impossible to set a representative amount of gas-cost related bad-debt expense where gas prices continue to rise and/or to exhibit a high degree of volatility.

A further concern of the Company is that the Department has implemented this policy for the stated purpose of providing an “incentive” for gas companies to reduce gas-related bad-debt expense. Gas companies have no control over commodity prices established in the competitive marketplace, nor do gas companies have control over the consumption of gas by customers. Therefore, to the extent that gas costs are a function of market prices and customer consumption, gas companies have no control over gas costs or their impact on total firm revenues and associated bad debts. Moreover, it is always in a company’s interest to collect revenues that are owed by the customer, whether the revenues are currently owed, are overdue, or have previously been written off. The gas companies are under extreme pressure in an increasingly competitive business environment to collect overdue amounts from customers.

For these reasons, the elimination of the reconciliation of gas-cost bad-debt expense does not create the "incentive" sought by the Department in reversing its ratemaking policy. Rather, the reversal of ratemaking policy simply undermines the financial operations of the LDC and will require more frequent base-rate adjustments regardless of whether a company is operating under a PBR plan.

Q. Has the Department investigated the ramifications of reversing the bad-debt recovery policy established in D.P.U. 96-50?

A. No. To the best of my knowledge, the Department's inquiry in relation to the implementation of its new policy has centered on the "allocation of uncollectible expense between base rates and the CGA." D.T.E. 02-24/25, at 171-72; D.T.E. 03-40 at 266. Thus, both in the final order and during hearings in D.T.E. 03-40, the Department's emphasis and interest appeared to be in a move to utilize newly available customer billing data to more precisely determine the allocation of bad-debt expense between the CGA and base rates and to update that allocation over time to reflect actual circumstances. D.T.E. 03-40 at 266 (see also Tr. 24 at 3298-3300); see D.T.E. 02-24/25 at 171-172.

I am not aware that the Department has ever entertained a discussion on this policy change in terms of (1) the potential variation that can occur in gas-related bad-debt expense as a result of changes in gas costs; (2) the financial impact of fixing the total bad-debt expense based on the "representative" test-year amount; (3) the financial impact of the Department's bad-debt policy over an extended time period, such as a ten-year PBR plan; (4) what the constraints and possibilities are for controlling bad-debt expense relating to gas-cost revenues; or (5) whether it is possible to establish an appropriate incentive to mitigate gas-related bad debt costs and, if so, what the alternatives for the incentive mechanism may be. In fact, the financial impact of the Department's policy are substantial and the alternatives for controlling bad-debt expense are extremely limited for the utility when the expense is directly linked to changes in gas costs.

Q. Why should the Department approve the methodology proposed by Bay State for the recovery of gas cost-related bad debts?

A. In the table below, the Company has provided an example of the financial impact of the Department's policy reversal to demonstrate, in terms of order of magnitude, the under-recoveries associated with that decision.

	2002	**2003**	**2004**	**2005**
Firm Revenue	$639,110,584	$920,099,598	$1,016,373,020	$1,049,567,381 (*projected)*
Gas Costs	$345,823,334	$611,547,029	$664,315,220	$690,617,336 (*projected*)
Allowed Gas-Cost Bad Debt Recovery per D.P.U. 96-50	$9,654,640	$12,133,400	$14,281,457	$15,141,940
Allowed Gas-Cost Bad Debt Recovery per D.T.E. 03-40	$5,782,122 (n.1)	$5,782,122 (n.1)	$5,157,000	$5,651,556
Annual Under-Recovery Per D.T.E. 03-40	**$3,872,518**	**$6,351,278**	**$9,124,457**	**$9,490,384**

n.1: Based on total bad-debt amount allowed in D.T.E. 03-40 ($9,326,004) times the allocation percentage of 62 percent for gas-cost related bad debt set in D.P.U. 96-50.

As demonstrated by this example, it is appropriate for the Department to maintain Bay State's existing methodology for computing and recovering gas-cost related bad-debt expense because the variation in gas-cost related bad-debt expense is substantial and is directly tied to the increase in gas costs. In fact, continuation of

Bay State's existing bad-debt recovery mechanism is necessary in view of (1) the Department's previous policy decision to establish the CGA to recover gas-related costs, (2) the Department's previous policy decision to move gas-related bad debt expense to the CGA for recovery in light of anticipated cost changes that would make it difficult to set a representative level of gas-cost related bad-debt expense, (3) the companies' lack of control over volatile gas prices, and (4) the serious, negative financial impacts associated with applying a non-reconciling cost recovery mechanism for gas-cost related bad debts, especially during a ten-year PBR plan.

Q. If the Department were to approve Bay States proposal in this case and re-establish its policy of reconciling the recovery of gas-related bad-debt expenses through the CGA, what would be the Company's proposal for applying that policy change to Boston Gas?

A. If the Department were to approve the Bay State proposal in this proceeding and re-establish its CGA-reconciling approach for the recovery of gas-cost related bad-debt expense, the Company would make an interim CGA filing following the issuance of the Department's order in this proceeding on November 30, 2005, to modify the recovery of gas-related bad-debt expense and make it consistent with the Bay State methodology approved by the Department.

Q. Does this complete your testimony?

A. Yes. Also, the Company appreciates the opportunity to comment on this important issue.